ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

ANNUAL REPORT 1988

OMERS

UPDATE

Ontario Municipal Employees Retirement Board

IN THIS ISSUE:

- Benefits for members
- Challenges for fund management

PENSION REFORM

89-04727/

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

Established in 1962 by an Act of the Ontario Legislature, the Ontario Municipal Employees Retirement System is a pension fund serving a diversified membership of employees of local government.

In addition to 1,098 municipalities, local boards and schoolboards, OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology on a management fee basis.

OMERS is financed by equal contributions from member municipalities and their employees. To meet its obligations to present and future members, OMERS must invest their funds and reinvest the returns prudently and effectively.

OMERS is a contributory defined benefit plan, but ad hoc increases and improvements to retirement benefits have been made over the years without any increase in member and employer contribution levels. These improvements to the pension benefits were made possible by sound and stable financial planning and because of the strong investment performance of the OMERS Fund.

The OMERS Fund currently is invested in a widely diversified portfolio of capital market investments including equities, bonds, short-term money market securities, mortgages, real estate, term loans and venture capital.

OMERS is managed by a Board whose members are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Municipal Affairs of Ontario. The majority of the members of the Board are employees of local governments contributing to the Plan. Other members are elected or appointed officials of municipalities and local boards of municipalities and one member is a provincial official. Thus OMERS is managed by and for local government employees and employers with the sole and dedicated purpose of providing an appropriate and uniform retirement income at stable and reasonable contribution rates.

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PENSION REFORM SPARKS SWEEPING CHANGES

OMERS faced one of the greatest challenges in its history in 1988 as we began to implement the sweeping changes sparked by pension reform.

The revised Ontario Pension Benefits Act 1987 introduced major and positive changes to OMERS benefits. But change has its costs, and pension reform has introduced greater complexity into pension plans. Implementation has, therefore, posed enormous challenges, because all aspects of OMERS operations were affected – from pension administration to investment strategies, from systems to communications with members.

The new requirements and compliance standards have meant extensive modification of all OMERS systems and procedures. This process is well underway and will continue into 1989.

Members can be assured of the commitment of the OMERS Board and all our employees to making the transition as smooth as possible. But given the magnitude of change to our system and operations, new complexities and additional reporting requirements, there may be occasional delays over the next year or two in our response time. We ask for your patience.

There will certainly be higher administrative costs – we need major additions to staff and computer systems in order to accommodate pension reform.

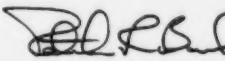
Furthermore the OMERS investment policy must be revised to accommodate the new "prudent person" rule which states that the Board as administrator of a pension fund shall exercise the care, diligence and skill in the administration and investment of a pension fund that a person of ordinary prudence would exercise in dealing with the property of another person. To comply with this rule we are revising our statement of investment policies and goals for the plan, revising the investment asset mix and appointing additional external managers to handle investments. The asset mix change is being designed to earn higher returns in the long run as we work to help meet the expected higher cost of legislated indexation. Increased use of external managers will help us deal with the accelerating expansion of the investment portfolio in a prudent fashion.

While dealing with the impact of pension reform in 1988, OMERS continued to provide a high level of service to the pensioners and members. Highlights of the year include:

- OMERS' net assets increased 15.4% from $8.132 billion to $9.385 billion;
- Contributing members increased to 160,853, and pensioners increased to 38,780;
- Pension contributions increased by 10% to $549 million;
- OMERS total return on market value of the fund was 12.1% for the year, compared with an outside performance measurement firm's median balanced pension fund return of 10.4%;
- Total investment income, including unrealized annualized capital gains, improved once again, although there was a decline in *realized* investment income reflecting the following factors: an unusually high level of capital gains was realized in 1987 due to the timely sale of stocks prior to the October stock market decline, and a lower than usual proportion of capital gains was realized in 1988 as OMERS switched to a buying mode in stocks to meet our new targets for equity investments in the asset mix;
- Pensions were once again increased by 4.2%, reflecting growth of the consumer price index;
- Pension reform changes were implemented.

As we look ahead, further changes and challenges are in store – including implementation of the indexing portion of pension reform, and pending federal tax reform.

Please be assured of our continued commitment to meeting the challenges on your behalf.



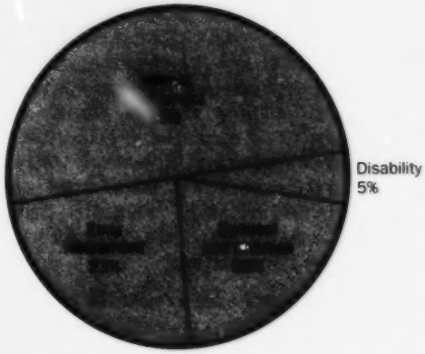
P.R. Burke, Chairman
April 21, 1989.

MEETING THE CHALLENGE OF PENSION REFORM

Through 1988, the OMERS Pension Division continued the demanding work of implementing the changes required by the revised Pension Benefits Act of Ontario, 1987.

This process began in 1987, with the increase in survivors' benefits from 50% to 60%, and with an increase in the rate of interest credited to pension refunds. Also in 1987, OMERS began the process of upgrading the Pension Administration System to accommodate the many changes required for automated benefit processing so as to cope with the complexities and demands of pension reform.

1988 PENSION PROFILE



In 1988 the balance of the pension changes required by the Pension Benefits Act, 1987 were implemented. These included:

- Contributions made after 1986 are now locked-in after two years of membership;
- Interest on member contributions now equals the average of five-year fixed term chartered bank deposit rates – 7.17% in 1988;
- Membership eligibility was extended to new classes of part-time employees;
- The 50% rule was introduced – for the portion of pensions earned after 1986, employer contributions must cover at least 50% of the cost;
- Upon termination a member may transfer the commuted value of the earned pension to a locked-in Registered Retirement Savings Plan or another pension plan;
- New pre-retirement death benefits were introduced;
- Changes were made to the definition of common-law spouse.

During 1988 OMERS pensions were increased by 4.2%, equal to the annual rate of inflation for the previous year. A one-time ad hoc catch-up was granted bringing benefits up to at least 60% of the consumer price increase since these benefits began.

The changes driven by pension reform placed a heavy demand on administration of the System. All procedures, systems and forms, including claims, quotations and member statements, had to be revamped. The old system, built around many claim forms with numerous manual steps, was replaced with an integrated computer-based system.

Automation has made it possible to deal with the complexities of pension reform, but there is still considerable development in store before the system is running smoothly and all information is processed in a timely fashion.

Pension reform placed a heavy demand on OMERS communications resources during 1988. There was extensive revision of most communication materials, including member and pensioner handbooks, the OMERS Act and Regulations, the slide show and pre-retirement planning seminar materials. It also required a great deal of extra effort on the part of Pension Division staff to communicate pension reform changes through the OMERS Update and employer letters, as well as direct contact with members through telephone calls and personal letters.

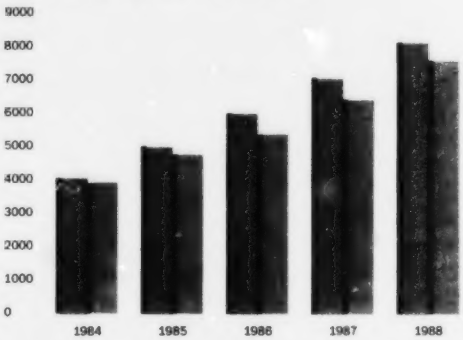
The OMERS 1988 actuarial valuation, prepared by The Wyatt Company, indicates that the current financial position of the Fund and current contribution levels are more than sufficient to provide for the OMERS plan benefits at their current level, including all changes resulting to date from pension reform, but not necessarily including a contractual inflation provision (i.e. a provision for indexing) as will be required in the future.

($ millions)	As at January 1	
Actuarial valuation results	**1988**	1987
Actuarial assets	**$8,249.7**	$7,068.4
Actuarial liabilities	**7,719.3**	6,466.7
Funding excess	**$ 530.4**	$ 601.7

As valued by the actuary

The results of the January 1988 valuation include the costs of pension reform and other improvements to date, estimated at $300 million.

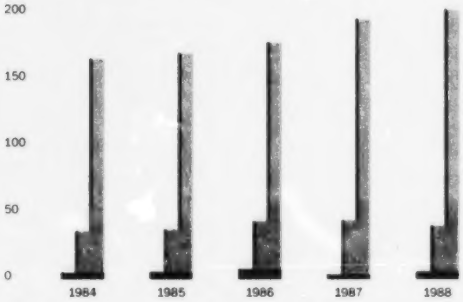
ACTUARIAL ASSETS VS MINIMUM LIABILITIES
($ millions)
Actuarial Assets **Minimum Liabilities**



As shown in the chart, the OMERS plan continues to have a reasonable funding excess. This fact, attributable to continuing better than-expected investment performance, permitted another ad hoc increase to pensions during the year of 4.2%, equal to the full increase in inflation, for the fourth consecutive year. This resulted in additional liabilities of $81.4 million which were funded out of the funding excess reducing this amount to $449.0 million.

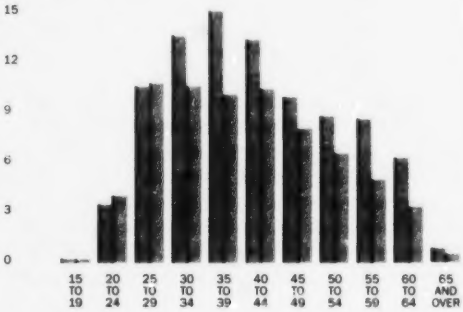
The Pension Division also manages the pension plans of Ryerson Polytechnical Institute and of the Ontario Colleges of Applied Arts and Technology (CAAT), pursuant to Section 16 of the OMERS Act. The net asset market value of these two funds has now reached $104.5 million and $1,122.2 million respectively. The Ryerson plan now has 1,370 members, and 200 pensioners who received benefits of $1.4 million in 1988. The CAAT plan has 17,451 members, and 2,153 pensioners who received $12.1 million in 1988.

NUMBER OF PARTICIPANTS IN OMERS PLAN
(Thousands)
Deferred Vesteds **Pensioners** **Actives**



The number of participants has continued to grow since inception.

MEMBER CLASSIFICATION BY AGE GROUPING
(Thousands)
Males **Females**



INVESTING FOR THE FUTURE

For the Investment Division, the two major challenges emerging from pension reform are:

- to ensure that returns on the fund's investments grow sufficiently to cover expanding liabilities relating to future benefits;
- complying with new regulations in the Pension Benefits Act – including the application of the prudent person rule, substantial revision of our Statement of Investment Policies and Goals, new reporting and disclosure requirements, and annual review of the policy statement.

The Division made considerable progress in these areas during an extraordinarily busy year. One of the major accomplishments of 1988 was completion of a thorough review of asset mix alternatives to meet OMERS' projected liabilities for the future, and the development of new long-term asset mix targets. These targets, which have been approved by the Board, are as follows:

- 30% fixed income investments (including short-term);
- 55% equities (including special situations);
- up to 15% real estate properties.

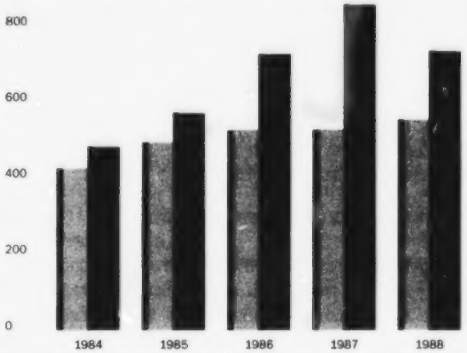
These new targets mean that we are increasing the emphasis on the *equities and real estate* portions of the fund. In addition to increasing the prospect of consistently higher returns, this shift should also make the fund more responsive to inflation and the resulting implications of indexation.

While these changes were being addressed, the OMERS Fund had another strong year in 1988. After adjustments for net contributions and income, the Fund reported an overall return of 12.1% for the year, versus 5.8% in 1987. This return compares favourably with the SEI median return of 10.4% for balanced pension funds.

As you will see from the chart, investment income declined somewhat – but only because the 1987 figure was disproportionately high as it included large realized capital gains taken prior to the October 1987 stock crash. That crash had created a climate of uncertainty about the future, with many forecasters projecting an economic downturn in 1988. In fact, the year was one of pleasant surprises from an economic perspective:

- because of our new objectives OMERS invested heavily in stocks during 1988 and was able to take advantage of the market upswing;

ANNUAL INCOME
($ millions)
Employer/Employee Contributions **Investment Income***



***Investment income includes cash income from interest, dividends etc., plus gains realized upon sale of securities. It pertains to OMERS fund only and does not include income from other plans managed by OMERS.**

- the Canadian economy grew an estimated 4% in real terms, matching its 1987 growth pace;
- 275,000 new (mostly full-time) jobs were created in Canada, lowering unemployment to 7.6% of the workforce from 8.1% at the beginning of the year;
- consumer price-inflation remained under relative control, easing to 4.1% (4.4% in 1987) despite increasingly tight labour markets and high levels of industrial activity.

Interest rates rose, however, particularly on short-term funds (the Canadian prime rate rose 2-1/2 percentage points).

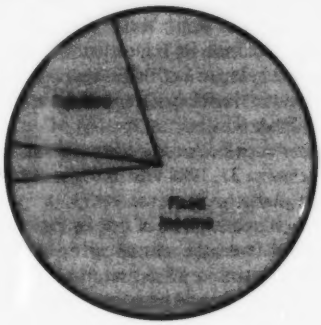
Internationally, the major industrialized countries experienced similarly healthy rates of growth, with relatively low inflation. As a result, there was an expansion of global trade, despite ongoing international disputes.

For the year ahead, the economic environment is somewhat uncertain. However, OMERS policy of a broadly-diversified Fund among many investment categories affords a good measure of protection against changes in the economy – and good prospects for meeting the long-term challenges of pension reform.

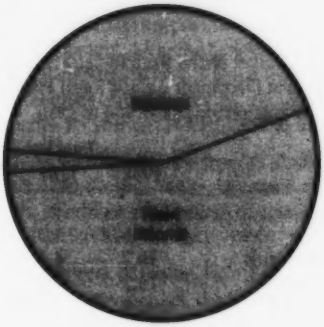
RECORD EQUITY PURCHASES

EVOLUTION OF ASSET MIX

1981



1988



TARGET

Equities includes Canadian equities, foreign equities, special situations and mutual funds.

Fixed income includes bonds, debentures, mortgages, term loans and short-term.

Equities

Having completed a major review of its future liabilities, OMERS decided to increase its equity ratio in 1988 and accordingly invested an unprecedented $950 million in equities during the year (including a record $462 million in the fourth quarter). This, together with the market increase in 1988, raised marketable equities to $4.4 billion or 42.7% of total assets compared with $3.1 billion or 34.9% at the end of 1987. During 1988, total realized capital gains from equities amounted to $74 million – compared to the record $258 million in 1987.

The return on Canadian equity investments was 17.1% during the year, compared with 10.8% for the Toronto Stock Exchange 300 Composite Total Return Index and 13.3% for the median fund measured by SEI Fund Evaluation Services.

During the last five years the return on Canadian equity investments was 10.6% compared with 9.9% for the median fund. Foreign equity returns were a more modest 7.0% in 1988, although over five years those returns have been much more attractive at 14.4% compared with the median of 14.0%. Over long periods of time (20 years plus) it is expected that equities will produce higher returns than fixed income assets and will provide a better match for the Fund's long term liability structure.

Bonds

We were able to take advantage of an inverted yield curve (higher short-term than long-term rates) and reduced the average term of our bond portfolio from 8.7 to 7.1 years, while at the same time increasing our average yield from 10.5% to 11.0%. In the process, OMERS realized almost $20 million in capital gains and earned a total return of 10.7%, exceeding the ScotiaMcLeod Universe return by 0.5%. Over the last five years our bond return was 13.2% compared with 12.9% for the median bond fund.

As we now have 30% of the bond portfolio, or $600 million, maturing within two years, this should help to ease the transition to a heavier proportion of equity and real estate in the asset mix.

Mortgages

As at December 31, 1988, the market value of the funded portfolio exceeded $1.9 billion, showing an unrealized market gain of $38 million. The portfolio's time-weighted rate of return on market value for 1988 was 10.2% and averaged 13.1% over the most recent five year period. The quality of the portfolio remains very high, with loans 90 days or more in arrears representing a mere 0.3% of the total invested portfolio.

Term Loans

In 1988, the Term Lending portfolio increased in size from $215 million at the end of 1987 to $248 million by year end 1988. The portfolio's rate of return was 10.9% for one year ended December 31, 1988 and 14.2% over the last five years.

The quality of the loan portfolio, which provides term financing to small to medium sized Canadian corporations, remains high resulting in continued expectations of good investment returns and security.

Special Situations

This portfolio represents investments into venture capital, oil and gas properties, and private placements into equities of corporations providing the Fund with opportunities for superior long term returns.

In 1988, the portfolio increased in size from $244 to $267 million. This net increase resulted from new investments during the year of $43.5 million, less $16.2 million in return of capital and sales of investments, notably our position in ONEX Food Services Inc.

Overall, the rate of return on the Special Situations portfolio was 7.7% for one year ended December 31, 1988 and 9.9% over the last five years.

Real Estate

In 1988, the Real Estate portfolio increased in size from approximately $367 million at the end of 1987 to $482 million by year end 1988. This increase is due primarily to the acquisition of two properties: the Honeywell Centre in North York (acquired in February); and the purchase from BCE Developments in August of a 40% interest in Phase 1 of BCE Place – the Canada Trust Tower – in the financial core of downtown Toronto at Bay and Front Streets.

The total return for the real estate portfolio for the year ended December 31, 1988 was 16.0%, and 10.6% over the last five years.

During the early phase of developing income-producing real estate, the returns can be held back, but as the properties are leased, returns are enhanced. In 1988, this factor helped contribute to the improved total return.

Total Returns

The following chart shows the total returns by major asset class as at December 31, 1987 and 1988 and also over the five year period from 1984 to 1988.

	Total Return*		
	1988	1987	1984-1988
	%	%	%
Ontario debentures	**10.6**	4.0	14.4
Marketable bonds	**10.7**	4.5	13.2
Mortgages	**10.2**	9.6	13.1
Term loans	**10.9**	14.0	14.2
Canadian stocks	**17.1**	4.3	10.6
Foreign stocks	**7.0**	(2.4)	14.0
Special situations	**7.7**	16.5	9.9
Real estate	**16.0**	10.2	10.6
Total fund	**12.1**	5.8	12.9

*Including unrealized gains or losses.

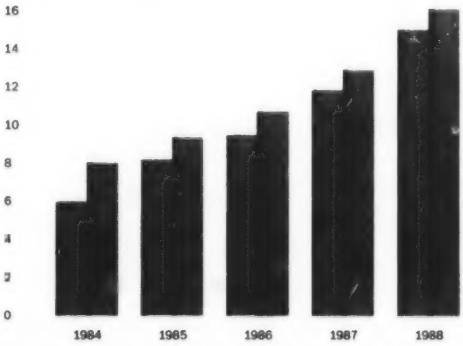
HANDLING THE COSTS OF CHANGE

As indicated in the Chairman's Report, no area of OMERS is untouched by pension reform. New challenges facing the Finance and Administration Division relate to fulfilling its mandate of ensuring cost-efficient operations consistent with providing employers, members and pensioners with a high level of service while ensuring that the systems, personnel and resources are in place to support timely implementation of the new requirements.

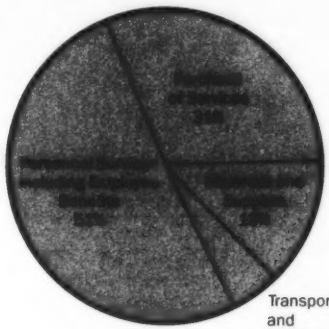
Last year we mentioned that pension reform has its costs. After the first year of implementation, the scope of additional costs has become apparent. Administrative expenses are up 27% over 1987, and a substantial portion of the increase was due to pension reform:

- Personnel costs were up by almost 25% reflecting the addition of 23 new staffing positions, including 4 for systems development, 13 in the benefits administration area, 1 in the investment area, 3 in the finance area, and 2 for member communications, to meet the new requirements. By year end, OMERS' staff totalled 169;
- Expenditures for materials and supplies almost doubled largely reflecting the required replacement of all forms, statements, handbooks and related materials required under the Pension Benefits Act;
- Professional services increased, reflecting increased cost of the actuarial valuation, the increased complexity of accounting for the Fund, the implementation of the internal audit function, and the additional cost of actuarial projects as follows:
  - re-examining investment assumptions and rate changes;
  - legislative changes due to pension reform;
  - proposed legislative changes due to tax reform;
  - new type 6 supplementary benefits for councillors;
  - costing for a different approach to buy backs.

ADMINISTRATIVE EXPENDITURES
($ millions)
■ Actual ■ Guideline



1988 ADMINISTRATIVE EXPENDITURES



Because of the extra costs generated by pension reform, the Board authorized the pension administrative expenditure guideline to increase from 1.0% to 1.5% of all pension contributions. The guideline to cover investment administrative expenditures remained unchanged at 1/10 of 1% of the amortized cost of capital market securities. In 1988, OMERS administrative expenses were well within these guidelines. OMERS also receives compensation from the Managed Plans as an offset to these expenses.

However, administrative costs will continue to rise as Federal and Provincial legislation increases the complexity of OMERS operations. Pension reform has not yet reached its full impact while the implementation of tax reform is pending (designed to provide equal treatment to taxpayers with or without pension plans).

OMERS continues to pursue its objectives of strictly controlling costs and improving productivity to minimize the impact on expenditures of the sweeping changes that are underway.

CONSOLIDATED STATEMENT OF NET ASSETS

December 31 (000's)	1988	1987 (as restated, note 1)
ASSETS		
Investments (notes 1 and 2)	**$10,407,775**	$8,980,2- 3
Long term receivables (note 3)	**146,265**	153,693
Fixed assets (note 4)	**1,349**	603
Contributions receivable	**47,320**	50,763
Accrued income	**153,842**	102,317
	10,756,551	9,287,619
LIABILITIES		
Due to administered pension funds (notes 1 and 5)	**1,222,153**	1,040,297
Provision for unreduced early retirement benefits (note 6)	**117,081**	98,554
Accounts payable and accrued liabilities	**32,575**	16,896
	1,371,809	1,155,747
NET ASSETS (notes 1 and 7)	**$ 9,384,742**	$8,131,872

Signed on behalf of the Board

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31 (000's)	1988	1987 (as restated. note 1)
INCREASES IN NET ASSETS		
Contributions (note 8)	$ 545,551	$ 531,072
Investment income (note 9)	715,598	828,359
Unrealized market appreciation (depreciation) of investments (note 1)	248,823	(421,868)
	1,509,972	937,563
DECREASES IN NET ASSETS		
Benefits (note 10)	242,564	205,490
Administrative expenditures (note 11)	14,538	11,302
	257,102	216,792
INCREASE IN NET ASSETS	1,252,870	720,771
Net assets at beginning of year	8,131,872	7,411,101
NET ASSETS AT END OF YEAR	$9,384,742	$8,131,872

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1988 (000's)

GENERAL

The Ontario Municipal Employees Retirement System ("OMERS") is registered under the Pension Benefits Act of Ontario, Registration #C006725.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Certain of the Fund's term loan, real estate and special situation investments are held by wholly owned subsidiaries. The consolidated financial statements include the accounts of the Fund and all subsidiairies.

Investments

Investments are stated at market value and are recorded as of the trade date. Market value is determined using listed market values where available. Where listed market values are not available, estimated values are calculated by discounting cash flows based on market yields, using cyclical real estate appraisals, or comparative securities.

Gains and losses on disposal of investments are credited or charged to investment income. Investment income from investments is recorded on the accrual basis.

Contributions

Member and employer contributions received subsequent to the year-end, but which are applicable to the current year, are recorded as receivable.

Benefits

Payments for benefits are recorded in the year in which such payments are made.

Fixed Assets

Computer equipment is recorded at cost and is depreciated on a straight-line basis over five years.

1. CHANGE IN ACCOUNTING POLICY

In 1988, the Fund changed its method of valuing investments from cost to market value. The change has been applied retroactively and accordingly the consolidated statement of net assets at December 31, 1987 and consolidated statement of changes in net assets for the year then ended have been restated.

As a result of this change, investments have been increased by $599,217 (1987 – $316,374). This has been allocated to amounts due to administered pension funds (1988 – $70,282; 1987 – $36,262) and net assets (1988 – $528,935; 1987 – $280,112; 1986 – $701,980). Unrealized market appreciation of $248,823 (1987 – depreciation, $421,868) has been reflected in the statement of changes in net assets.

2. INVESTMENTS

	1988		1987	
	Market Value	**Cost**	Market Value	Cost
Cash and short term deposits	**$ 251,031**	**$ 251,031**	$ 576,881	$ 576,881
Canadian bonds and debentures	**2,812,887**	**2,966,225**	2,692,549	2,821,943
Term loans	**247,525**	**247,649**	215,305	212,725
Mortgages	**1,906,507**	**1,863,219**	1,751,299	1,691,309
Canadian equities	**3,431,066**	**2,936,588**	2,365,768	2,151,342
Non-Canadian equities	**772,192**	**697,535**	599,156	525,813
Mutual funds	**237,411**	**195,451**	168,831	128,070
Real estate	**320,099**	**266,745**	198,040	175,315
Real estate debentures	**161,590**	**124,993**	168,869	145,574
Venture capital	**94,576**	**94,443**	95,059	88,068
Resource properties	**70,615**	**70,237**	57,668	57,668
Private placements	**102,276**	**94,442**	90,818	89,161
	$10,407,775	**$9,808,558**	$8,980,243	$8,663,869

Canadian bonds and debentures include Province of Ontario debentures having a cost of $1,293,025 (1987 – $1,293,025), bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through December 31, 2006.

At December 31, the Fund held individual investments whose market or cost value exceeded 1% of the market or cost value of investments in total:

		1988 Aggregate	
	Number of Investments	**Market Value**	**Cost**
Mortgages	1	**$104,039**	**$105,000**
Canadian equities	3	**337,769**	**226,637**
Real estate acquired during the year	1	**111,673**	**111,673**
		$553,481	**$443,310**

3. LONG TERM RECEIVABLES

Under the terms of The Ontario Municipal Employees Retirement System Act certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

4. FIXED ASSETS

	1988			1987
	Cost	Accumulated depreciation	Net	Net
Computer equipment	$2,404	$1,055	$1,349	$603

5. DUE TO ADMINISTERED PENSION FUNDS

The administered pension funds which form part of the Fund, are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

6. PROVISION FOR UNREDUCED EARLY RETIREMENT BENEFITS

Certain participating employers have entered into agreements with the Board for provision of unreduced early retirement benefits in addition to those provided by OMERS. Funding is provided by additional contributions. An actuarial valuation is performed every three years. Where actuarial liabilities exceed actuarial assets for individual groups a series of special payments has been established to eliminate the deficiency.

The most recent actuarial valuation was performed at January 1, 1987. On an overall basis the actuarial assets exceeded the actuarial liabilities for the participating groups.

7. NET ASSETS

The Fund is maintained for the payment of pensions to retired members or their beneficiaries and the future payment of pensions and benefits to contributing members and to terminated members who have elected a deferred pension.

The latest actuarial valuation of the System as at January 1, 1988 determined the total actuarial liabilities of the System to be $7,719,310 using the unit credit actuarial cost method. The actuarially adjusted book value of accumulated assets at that date was $8,249,718 resulting in a funding excess of $530,408.

The results of the actuarial valuation indicate that the existing levels of member and employer contributions are sufficient to meet the normal actuarial cost of benefits earned during 1988. Further, the System was fully funded at December 31, 1988.

8. CONTRIBUTIONS

	1988	1987
Members	$263,023	$238,902
Employers, current service	262,049	238,049
Employers, repayment of long term receivables (note 3)	19,574	51,649
Unreduced early retirement benefits (note 6)	905	2,472
	$545,551	$531,072

9. INVESTMENT INCOME

	1988	1987
Short term deposits	$ 57,322	$ 23,907
Canadian bonds and debentures	287,787	276,652
Term loans	27,182	19,455
Mortgages	191,143	182,122
Canadian equities	95,742	77,052
Non-Canadian equities	14,938	15,360
Mutual funds	18,717	36,743
Real estate	14,604	7,958
Real estate debentures	9,414	10,571
Venture capital	306	2,116
Resource properties	3,053	1,732
Private placements	4,459	2,149
	724,667	655,817
Realized capital gains	101,380	291,589
	826,047	947,406
Less income credited to:		
Administered pension funds	(95,775)	(108,422)
Provision for unreduced early retirement benefits	(14,674)	(10,625)
	$715,598	$828,359

10. BENEFITS

	1988	1987
Members' pensions	$208,366	$165,383
Members' contributions plus interest refunded	31,321	36,337
Transfers to other pension plans	2,877	3,770
	$242,564	$205,490

11. ADMINISTRATIVE EXPENDITURES

	1988	1987
Personnel services	$ 7,829	$ 6,391
Transportation and communication	716	563
Audit services	202	67
Legal services	129	394
Other professional services	1,254	734
Other purchased services	3,113	2,632
Materials and supplies	2,044	1,194
	15,287	11.975
Less: Management fees from administered pension funds	749	673
	$14,538	$11,302

12. COMMITMENTS

Total investment commitments outstanding at December 31, 1988 amounted to approximately $353 million of which $175 million relates to mortgages, $105 million to real estate, $17 million to term loans and the remaining $56 million to venture capital and private placements.

13. COMPARATIVE FIGURES

Certain comparative figures for 1987 have been restated to conform with the financial statement presentation adopted for 1988.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

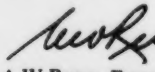
The financial statements of the Ontario Municipal Employees Retirement Fund are the responsibility of management and have been approved by the OMERS Board.

These financial statements have been prepared by management in accordance with generally accepted accounting principles and the Pension Benefits Act of Ontario. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

In fulfilling its responsibilities, management has developed and is maintaining a system of internal accounting controls designed to ensure that financial records are reliable and that assets are safeguarded.

These financial statements have been examined by OMERS' auditors, Thorne Ernst & Whinney, Chartered Accountants, and their unqualified report is presented herein.

As a pension fund, OMERS also reports the actuarial value of assets and liabilities. This valuation is conducted by The Wyatt Company, an actuarial firm, in accordance with generally accepted actuarial principles. Their report also follows.



A.W. Reeve, Executive Director.
Toronto, Canada
April 21, 1989

AUDITORS' REPORT TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have examined the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1988 and the consolidated statement of changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Fund as at December 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in valuation of investments as described in note 1, on a basis consistent with that of the preceding year.

The consolidated financial statements for the preceding year were examined by other chartered accountants.

Thorne Ernst & Whinney

Chartered Accountants
Toronto, Canada
April 21, 1989

ACTUARIAL COST CERTIFICATE AS AT DECEMBER 31, 1988 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at January 1, 1988 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total actuarial liabilities of $7,719.310 million in respect of benefits accrued for service prior to January 1, 1988. The actuarial assets at that date were $8,249.718 million indicating an actuarial surplus or funding excess of $530.408 million.

The results of the actuarial valuation also indicated that the existing levels of employee and employer contributions are sufficient to meet the normal actuarial cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the actuarial liabilities during 1988 taking into account the amendments made to the Plan up to December 31, 1988. Further, we have calculated the actuarial assets at December 31, 1988.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1988 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted
THE WYATT COMPANY

Martin Brown

MARTIN J.K. BROWN,
Fellow, Canadian Institute of Actuaries
April 21, 1989

OMERS CONSOLIDATED INVESTMENT FUND ASSETS

As at December 31 (000's)	Market Value 1988	1987
Debt investments		
Cash – current accounts	**$ 5,114**	$ 6,050
Short term investments	**245,917**	570,831
Total cash & short term	**$ 251,031**	$ 576,881
Ontario debentures	**$ 1,162,425**	$1,160,888
Marketable bonds		
Government of Canada	**$ 445,961**	$ 406,763
Provincial	**536,840**	459,692
Municipal	**27,270**	29,307
Corporate	**131,112**	153,901
Eurodollar/Index linked	**31,616**	34,751
Mid term notes	**477,663**	447,247
Total marketable bonds	**$ 1,650,462**	$1,531,661
Term loans	**$ 247,525**	$ 215,305
Mortgages		
Residential insured – NHA	**$ 1,277,943**	$1,265,609
Commercial – uninsured	**448,740**	404,622
Bonds	**179,824**	79,425
Real estate	**0**	1,643
Total mortgage investments	**$ 1,906,507**	$1,751,299
Total debt investments	**$ 5,217,950**	$5,236,034

As at December 31 (000's)	Market Value 1988	1987
Equity investments		
Stocks		
Canadian – direct – core	**$ 3,273,332**	$2,215,302
– growth	**107,120**	107,682
– managed	**117,424**	83,322
Foreign – direct	**580,712**	417,990
– managed	**362,081**	309,459
Total stocks	**$ 4,440,669**	$3,133,755
Special situations		
Private placements	**102,276**	90,818
Venture capital	**94,576**	95,059
Resource investments	**70,615**	57,668
	267,467	243,545
Total equity	**$ 4,708,136**	$3,377,300
Real estate investments		
Shares	**$ 43,305**	$ 34,682
Fund units	**21,005**	18,373
Land and buildings	**292,435**	172,159
Participating bonds	**123,314**	139,721
Notes receivable	**1,630**	1,974
Total real estate	**$ 481,689**	$ 366,909
Total equity and real estate	**$ 5,189,825**	$3,744,209
Total market fund	**$10,407,775**	$8,980,243

A more detailed list of investments may be obtained upon request.

The broad investment policy of the Board and the distribution of assets of the Investment Fund at year end is as follows:

Class of Assets	% Policy Range		% Invested	
	New	Previous	Cost	Market
Debt Investments				
Short term			3	2
Ontario Debentures			13	11
Bonds			17	16
Term Loans			2	2
Mortgages			19	19
Total Debt	30	50	54	50
Equity Investments				
Canadian Stocks			30	33
Foreign Stocks			9	9
Special Situations			3	3
Total Equity	55	45	42	45
Real Estate Investments	15	5	4	5
Total Equity & Real Estate	70	50	46	50
Total Investment Fund	100	100	100	100

FIVE YEAR REVIEW OF FINANCIAL DATA

(000)	1988	1987	1986	1985	1984
*Investments at cost					
Provincial debentures	$ 1,293,025	$1,293,025	$1,293,025	$1,293,025	$1,293,025
Marketable securities	8,515,533	7,370,844	6,120,540	4,980,987	3,988,824
	$ 9,808,558	$8,663,869	$7,413,565	$6,274,012	$5,281,849
*Provision for					
OMERS plan benefits	$ 8,855,808	$7,851,760	$6,709,121	$5,706,521	$4,814,414
Unreduced early retirement benefits	117,081	98,554	86,867	76,579	66,875
Administered pension funds	1,151,871	1,004,035	846,818	713,283	597,789
	$10,124,760	$8,954,349	$7,642,806	$6,496,383	$5,479,078
Investment income realized					
OMERS plan benefits	$ 715,598	$ 828,359	$ 716,545	$ 569,377	$ 457,582
Unreduced early retirement benefits	14,674	10,625	9,690	8,289	7,036
Administered pension funds	95,775	108,422	92,852	73,707	60,060
	$ 826,047	$ 947,406	$ 819,087	$ 651,373	$ 524,678
Contributions received					
OMERS plan benefits	$ 525,072	$ 476,951	$ 437,076	$ 405,301	$ 380,769
Long term receivables repayment	19,574	51,649	20,917	59,311	21,329
Unreduced early retirement benefits	4,820	3,581	3,998	4,127	3,172
	$ 549,466	$ 532,181	$ 461,991	$ 468,739	$ 405,270
Payments to members					
Pensions paid	$ 208,366	$ 165,383	$ 133,539	$ 108,092	$ 86,858
Contributions and interest refunded	31,321	36,337	30,635	27,094	23,377
Transfers to other plans	2,877	3,770	2,238	1,515	1,548
	$ 242,564	$ 205,490	$ 166,412	$ 136,701	$ 111,783
Administrative expenditures and recoveries					
Pension program					
Gross	$ 8,438	$ 5,561	$ 4,202	$ 3,573	$ 3,461
Fee recoveries	749	673	617	565	505
Net	$ 7,689	$ 4,888	$ 3,585	$ 3,008	$ 2,956
Investment program	6,849	6,414	5,300	4,627	2,656
	$ 14,538	$ 11,302	$ 8,885	$ 7,635	$ 5,612
Total Fund annual rates of return					
Dollar-weighted return on book value	9.1%	12.2%	12.4%	11.7%	11.2%
Time-weighted return on market value	12.1%	5.8%	13.0%	23.6%	11.0%

Unaudited figures

*The amount shown for each year as at December 31 is cumulative and does not reflect unrealized gains.

FIVE YEAR REVIEW OF SELECTED DATA

	1988	1987	1986	1985	1984
*Employers					
Municipalities	**526**	512	507	504	493
School boards	**133**	133	132	133	133
Other local boards	**439**	432	430	426	426
	1,098	1,077	1,069	1,063	1,052
*Members contributing, employed by					
Municipalities	**81,146**	74,824	71,703	69,469	67,024
School boards	**43,093**	38,373	36,158	34,568	33,253
Other local boards	**36,614**	33,628	32,259	31,061	30,168
	160,853	146,825	140,120	135,098	130,445
*Members contributing					
Female	**69,678**	60,579	56,252	52,880	50,005
Male	**91,175**	86,246	83,868	82,218	80,440
	160,853	146,825	140,120	135,098	130,445
*Normal retirement age 65	**142,348**	129,292	122,952	116,937	112,704
*Normal retirement age 60	**18,505**	17,533	17,168	18,161	17,741
	160,853	146,825	140,120	135,098	130,445
*Terminated members who have elected a deferred pension	**5,052**	3,908	3,688	3,805	3,786
*Number of pensioners by type of pension					
Normal retirement	**18,955**	18,197	17,291	16,358	15,218
Early retirement	**8,996**	7,823	6,611	5,719	4,841
Disability retirement	**2,128**	2,025	1,940	1,843	1,705
Spouses and children	**8,701**	8,101	7,498	6,961	6,387
	38,780	36,146	33,340	30,881	28,151
*Total membership comprising Contributing members, deferred pensions and pensioners	**204,685**	186,879	177,148	169,784	162,382
Number of members enrolled each year	**23,208**	18,856	15,563	14,694	11,436
Number of members terminated each year	**9,180**	12,151	10,541	10,041	8,840
Net increases in membership	**14,028**	6,705	5,022	4,653	2,596

Unaudited figures

*Cumulative totals at year-end

OFFICERS AND DIRECTORS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD
as at December 31, 1988

Mr. C. M. Beckstead, *Chairman,*
Chief Administrative Officer, City of Nepean

Mr. P. R. Burke, *Vice-Chairman,*
Firefighter, City of Windsor

Mr. S. P. Dobbin,
Stationary Engineer,
Toronto Board of Education

Mr. T. D. Allan,
Police Officer, Durham Regional Police Force

Mr. T. A. Arkeveld,
Supt. of Business and Treasurer,
Leeds & Grenville County Board of Education

Mr. C. R. Bernardi,
Director of Personnel and Labour Relations,
City of Sault Ste. Marie

Mr. L. J. Close,
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Miss D. F. Graber,
Administrative Supervisor, Department of Roads and Traffic, Municipality of Metropolitan Toronto

Mr. A. J. Roberts,
Consumer Relations Representative,
St. Catharines Hydro Electric Commission

Mr. B. Sinclair,
Mayor, City of Etobicoke

SENIOR STAFF

Mr. A. W. Reeve,
Executive Director

Mr. R. Sillcox,
Director, Investment Division

Mr. M. Beswick,
Director, Pension Division

Mr. A. Trafford,
Director, Management Policies

Ms. J. Bevan
Director, Human Resources

INVESTMENT POLICY COMMITTEE OF THE BOARD
as at December 31, 1988

Mr. R. M. MacIntosh, *Chairman,*
Canadian Banker's Association

Mr. J. C. C. Wansbrough, *Vice-Chairman,*
The National Trust Company

Mr. D. Pretty,
Pretty Consultants Inc.

Mr. J. B. Purdy,
Crown Life Insurance Co.

Mr. C. M. Beckstead,
Chairman of the Board

Mr. A. J. Roberts,
Member of the Board

Mr. A. W. Reeve,
Executive Director

Mr. R. Sillcox,
Director, Investment Division

ADVISORS TO THE BOARD

Mr. M. J. K. Brown,
The Wyatt Company, Actuary

Dr. Chris West,
Medical Advisor

Mr. Maurice Coombs,
Osler, Hoskin & Harcourt, Legal Advisor

Mr. R.M. Freeborough,
Thorne Ernst & Whinney
External Auditors

Mr. C. Stuart Hartley
BDO Ward Mallette
Internal Auditors